

Message Text

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ACTION EB-08

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E.O.11652: NA
TAGS: EAIR, PGOV, WB, GW, UK, FR
SUBJECT: CIVAIR: PANAM'S BUDGET FARE IN FRG AND BERLIN

REF: (A) BONN 05956, (B) STATE 085471

SUMMARY: PANAM TELLS US THAT IT ANNOUNCED BUDGET FARES, DESPITE MISGIVINGS, ON FIRM INSTRUCTIONS FROM NEW YORK HEADQUARTERS WHICH DISMISSED CONTENTION THAT CAA APPROVAL REQUIRED FOR INTERNATIONAL TARIFFS ON FLIGHTS TO AND FROM BERLIN. THERE HAS BEEN HEAVY MEDIA COVERAGE; PANAM BEING DELUGED WITH RESERVATIONS. LEADERS OF ALL THREE GERMAN POLITICAL PARTIES IN BERLIN HAVE WELCOMED FARE; IN ADDITION, OPPOSITION VDU HAS CRITICIZED FRG RESISTANCE TO BUDGET FARES. WE EXPECT STRONG BRITISH INTERESTS IN TRANSATLANTIC FARES WILL COME INTO PLAY IN CAA FORUM. END SUMMARY.

1. PAN AMERICAN BERLIN STATION MANAGER JACOBY TOLD US THAT HE HAD BEEN AWARE FRG FEDERAL MINISTRY OF TRANSPORT (FMT) HAD FOR SOME WEEKS BEEN CONSIDERING SEVERAL APPLICATIONS

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TIONS FOR CHEAPER TRANSATLANTIC FARES FROM LUFTHANSA AND PAN AMERICAN. LATE FRIDAY MARCH 31 JACOBY RECEIVED NEWS OF FMT APPROVAL OF PAN AM "SUPER APEX" AND COMPARABLE LUFTHANSA "HOLDIAY FARES;" IN SAME MESSAGE HOVERE FMT NOTIFIED ITS REFUSAL TO APPROVE EVEN CHEAPER "BUDGET FARE" FOR WHICH ONLY PAN AMERICAN HAD APPLIED. THIS NEWS RECEIVED EXTENSIVE COVERAGE IN MAJOR BERLIN NEWSPAPERS

THE NEXT DAY. PAPERS NOTED THAT FMT HAD REJECTED BUDGET FARES BECAUSE THEY WERE SO LOW THAT EXPENSES WOULD NOT BE COVERED AND THEY WOULD VIOLATE GERMAN/AMERICAN AVIATION AGREEMETN WITH RESPECT TO OVERALL PROFIT LEVELS ON REGULARLY SCHEDULED FLIGHTS.

2. ALSO ON SATURDAY APRIL 1 PANAM BERLIN STATION RECEIVED INSTRUCTIONS FORM NEW YORK HEADQUARTERS TO ANNOUNCE INTRODUCTION OF BUDGET FARES IN BOTH DIRECTIONS BETWEEN BERLIN AND THE USA. (PAN AM HEADQUARTERS' TELEX ALSO SUGGESTED USA-FRANKFURT ONE-WAY BUDGET FARES ALSO APPROVED--A THORNY ISSUE WE ASSUME EMBASSY BONN IS PURSUING.)

3. NEWS OF THESE VERY CHEAP BUDGET FARES IMMEDIATELY RECEIVED WIDE BERLIN TELEVISION AND NEWSPAPER COVERAGE. BERLIN MAYOR AND SENATOR FOR ECONOMICS WOLFGANG LUEDER, WHO IS LEADER OF THE FDP IN BERLIN, WHOLEHEARTEDLY WELCOMED THE INTRODUCTION OF THE BUDGET FARES ASN AN "EXCELLENT OFFER" FROM THE BERLIN POINT OF VIEW. LUEDER SAID THE CHEAP FLIGHTS WOULD BE A STIMULUS TO BERLIN AVIATION AS WELL AS A FURTHER EXAMPLE OF THE ALWAYS DESIRABLE INCLUSION OF BERLIN IN AN INTERNATIONAL AIR NETWORK.

4. THE ANNOUNCEMENT OF THE BUDGET FARES ALSO SPARKED A WEEKEND PRESS STATEMENT BY THE FMT, WHICH WAS CARRIED IN ALL SUNDAY NEWSPAPERS. THE GIST OF STATEMENT WAS BUDGET TARIFFS LIMITED OFFICIAL USE

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"UNILATERALLY APPROVED BY THE USG" WERE VOID BECAUSE THE FRG HAD NOT APPROVED THE FLIGHTS BETWEEN THE US AND FRG AND THE LOWER BERLIN-USA FARES DID NOT HAVE APPROVAL OF THE THREE ALLIED CAAS WHO "AS A RULE COORDINATED SUCH DECISIONS" WITH THE FRG. MOREOVER, FMT ANNOUNCED IT WOULD INITIATE PROCEEDINGS TO FINE PAN AMERICAN SHOULD IT BE ESTABLISHED THAT PANAM HAD SOLD BUDGET FARES TO PASSENGERS ENROUTE USA-FRG. THE BERLIN CDU ISSUED A STATEMENT APRIL 4 WELCOMING THE BUDGET TARIFF WHILE CRITICIZING WHAT IT TERMED AS A THREAT TO FINE PANAM. CDU SPOKESMAN WRONSKI FOUND TI IRONIC THAT FOR YEARS THE FEDERAL GOVERNMENT HAD BEEN ABLE TO DO NOTHING ABOUT THE DIS-CRIMINATORY ACTS AGAINST BERLIN AIR SERVICES BY BULGARIAN, RUMANIAN, AND TURKSIH AIRLINES, YET IT WAS QUICK TO MOVE AGAINST AN AIRLINE WHICH WAS ACTING IN THE INTERESTS OF BERLIN.

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5. WHEN WE SPOKE TO JACOBY ON TUESDAY, APRIL 4, HE WAS JUBLANT OVER RESPONSE TO BUDGET FARE ANNOUNCEMENT; PANAM BERLIN RESERVATION OFFICE HAD RECEIVED 128 BOOKINGS FROM BERLINERS THE PREVIOUS DAY AS WELL AS NUMEROUS INQUIRIES FROM GERMANS RESIDENT IN THE FRG WHO WERE INTERESTED IN FLYING TO BERLIN TO TAKE ADVANTAGE OF THE BUDGET FARE. JACOBY ADMITTED RUEFULLY THAT HE HAD HAD SECOND THOUGHTS ABOUT INTRODUCING BUDGET FARE WITHOUT CAA APPROVAL. ACCORDINGLY, ON MONDAY, APRIL 3, HE HAD PERSUADED PANAM'S MANAGER FOR GERMANY (BERNACCHIA) TO QUESTION THE NEW YORK HEADQUARTERS' CONTENTION THAT APPROVAL OF US CAAS NOT REQUIRED FOR INTERNATIONAL TARIFFS. ACCORDING TO JACOBY NEW YORK HEADQUARTERS CLAIMED IT WAS ON FIRM LEGAL GROUND IN INTRODUCING FARES WITHOUT CAA APPROVAL, WHO IN NEW YORK'S VIEW WERE RESPONSIBLE ONLY FOR DOMESTIC FLIGHTS. THIS VIEW CONVEYED BY PANAM TO LOCAL PRESS AND TELEVISION WHICH PLAYED IT UP APRIL 3 AND 4. HOWEVER, SPANDAUER VOLKSBLATT CORRECTLY SPELLED OUT CAAS' APPROVAL AUTHORITY.

6. AS JACOBY SEEMED VAGUE ABOUT CAAS' RESPONSIBILITIES WITH RESPECT TO INTERNATIONAL FLIGHTS, WE NOTED THAT CAAS LAST
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YEAR APPROVED TARIFFS FOR OVER 9,000 SUCH FLIGHTS. WE ALSO OUTLINED THE EMBASSY'S EXCELLENT JUSTIFICATION FOR THE CAAS' RESPONSIBILITIES WITH RESPECT TO INTERNATIONAL FLIGHTS (PARA 4, REF A). WE EXPECT JACOBY WILL BE TRANSMITTING THESE POINTS TO NEW YORK.

7. JACOBY ADDED THAT ANY INSTRUCTION FROM THE CAAS FORCING

A RECISSION OF THE FARES, HOWEVER "TEMPORARY," WOULD HAVE "DISASTROUS" CONSEQUENCES. HE ACKNOWLEDGED THAT PRECIPITOUS ACTION BY NEW YORK HEADQUARTER PUT HIM IN A BAD SPOT.

8. COMMENT: AS BRITISH HAVE LONG HAD VERY STRONG VIEWS ON TRANSATLANTIC FARE QUESTION, WE EXPECT THEY WILL WANT TO PROTECT THEIR INTERESTS IN CAA FROM IN BONN. BRITISH AIRWAYS BERLIN MANAGER WOLFGANG GRUND CONFIRMED PRESS REPORTS OF BA'S INTENTION TO APPLY FOR FARES SIMILAR TO BUDGET FARES BETWEEN BERLIN AND THE USA. GRUND CAUTIONED, HOWEVER, THAT BA MAY HAVE GREATER DIFFICULTY THAN PAN AM IN GAINING APPROVAL FOR SUCH FARES BECAUSE BA DOES NOT HAVE A DIRECT BERLIN-USA FLIGHT; PANAM DOES. PANAM MANAGER JACOBY TOLD US FROM HIS POINT OF VIEW IN BERLIN HE WOULD HAVE NO OBJECTION TO A SIMILAR BA FARE.

9. SENAT REACTION WAS INITIALLY EUPHORIC, BUT SOME CAUTION IS NOW CREEPING IN. ON APRIL 3 MAYOR STOBBE TOLD MINISTER THAT U.S. DECISION ON CHEAP FARES FROM BERLIN WAS VERY MUCH APPRECIATED. NEXT DAY HOWEVER, SCHULZE, CHIEF OF SENAT POLITICAL SECRETARIAT, TOLD US THAT ALTHOUGH THE CHEAPER FARES WERE WELCOME, THE IDEA THAT THEY WERE INTRODUCED AGAINST FRG WISHES WAS GOING TO CREATE TROUBLE. END COMMENT. GEORGE

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